

Message Text

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TAGS: ENRG, SU

SUBJ: ENERGY: STATUS PETROLEUM SITUATION SUDAN

1. SUMMARY: ON BASIS OUR CONVERSATIONS WITH BOTH INDUSTRY AND OTHER SOURCES, IT CLEAR SUDAN BEING HARD HIT BY WORLD PETROLEUM CRISIS, IN TERMS BOTH SHORTAGES AVAILABLE SUPPLIES AND SKYROCKETING PRICES. DESPITE CLOSE TIES WITH AND RESULTANT HELP FROM SAUDI ARABIA, SUDAN STILL CLASSIC CASE OF LDC CAUGHT IN MIDDLE. END SUMMARY.

2. SUPPLY - OIL D*STRICTION COMPANIES CONTINUE FACE APPROXIMATELY TWENTY PERCENT SHORFALL IN OIL SUPPLIES AVAILABLE FOR SUDAN AS COMPARED QUANTITIES BROUGHT IN LAST YEAR, (AND LATTER AMOUNT DID NOT REFLECT REAL DEMAND WHICH DEPRESSED AS RESULT RAILROAD'S INABILITY MOVE MORE PRODUCT UP-COUNTRY). EVEN IF GOS ABLE FIND ALTERNATIVE SOURCES OF SUPPLY (I.E. SAUDI ARABI) IT UNLIKELY ADDITIONAL CRUDE

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COULD ARRIVE BEFORE END OF FIRST QUARTER. MOREOVER,

REFINERY'S CAPACITY IS LIMITED. IT CAN ONLY HANDLE NORMAL CONSUMPTION RATE OF 26,000 BBLs/DAY AND COULD NOT MAKE UP FIRST QUARTER GAP EVEN IF MORE CRUDE SUBSEQUENTLY SUPPLIED. THUS SUDAN FACED WITH IRREDUCIBLE SHORTFALL UNLESS IT CAN OBTAIN ALREADY REFINED PRODUCT--PRESUMABLY GAS OIL (DIESEL). IT MAY BE THIS ALSO WILL BE COVERED IN PENDING SAG/GOS OIL AGREEMENT (KHARTOUM 0111).

3. DESPITE EVIDENT SHORTFALL, GOS CONTINUES FOR DOMESTIC REASONS RESIST COMPANIES' URGING THAT RATIONING BE IMPOSED. QUITE CONTRARY, GOS HAS SUCCEEDED IN SHARPLY IMPROVING TRANSPORT SITUATION TO POINT THAT THERE HAS BEEN 20 PERCENT INCREASE IN PRODUCT MOVING UP-COUNTRY FOR DISTRIBUTION. WHEN COMPANIES POINT OUT THIS SITUATION CANNOT CONTINUE, GOS REPORTEDLY IN EFFECT REFUSES TO LISTEN, ASSUMING MICAWBER-LIKE POSTURE THAT SOMETHING WILL TURN UP TO SOLVE PROBLEM. WHILE SUDANESE NO DOUBT KNOW MORE THAN COMPANIES--OR WE-- RE CURRENT SAG/GOS OIL EXCHANGES, COMPANIES CURRENTLY FINDING THEMSELVES IN MIDDLE WITH VARIETY OF OFFICIALS ISSUING CONFLICTING ORDERS AS TO WHAT SHOULD BE SUPPLIED WHERE. AMONG OTHER EFFECTS, THIS PRODUCING PRESSURE ON WHAT COMPANIES CONSIDER SHOULD BE NECESSARY LEVEL OF RESERVES OF JET FUEL IN FAVOR MAXIMIZING PRODUCTION KEROSENE. THIS CAN ONLY BE DONE BY REDUCING JET FUEL PRODUCTION.

4. RE POSSIBLE SAUDI GUARANTEE OF ADEQUATE SUPPLIES AT LEAST FOR REMAINDER OF YEAR (KHARTOUM 0111), GOS MININD&MINING ANNOUNCED JAN 31 THAT SUCH ARRANGMENTS MADE. THIS FOLLOWS SIMILAR EARLIER STATEMENT OUT OF SUDANESE EMBASSY JIDDA. OIL COMPANIES ON OTHER HAND HAVE RECEIVED NO CONFIRMATION THAT SUCH ARRANGEMENTS FINALIZED AND INDEED HAVE CERTAIN INDICATIONS THAT GOVERNMENT STILL LOOKING FOR ADDITIONAL SOURCES OF SUPPLY. IN ANY CASE, THERE REMAINS QUESTION OF EXACTLY WHAT SAUDIS MIGHT HAVE, OR BE PREPARED, GUARANTEED -- SUDAN'S TOTAL NEEDS OR JUST THE MISSING 20 PERCENT. COMPANIES PROFESS BE UNCONCERNED AT PROSPECT THEIR CRUDE BEING TOTALLY REPLACED BY SAUDI CRUDE. THEY DO NOT BELIEVE GOS LIMITED OFFICIAL USE

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WISHES ASSUME MARKETING FUNCTION AND THUS THEIR ONLY CONCERN IS THAT THEY BE PERMITTED BUY REFINED PRODUCT AT FAIR PRICE THAT CAN BE PASSED ON TO CONSUMER. IT IS SHELL REP GUESS, HOWEVER, THAT SAUDIS WILL ONLY MAKE UP EXISTING SHORTFALL WITH REMAINDER OF CRUDE CONTINUING TO COME FROM COMPANY SOURCES IN IRAN.

5. RE PRICING, GOS LIKEWISE FINDING DECISIONS EXTREMELY

DIFFICULT. GOVERNMENT MINISTERS HAVE ALREADY RULED OUT INCREASE IN BENZINE PRICE; KEROSENE USED EXTENSIVELY BY LOWER INCOME GROUPS IS POLITICALLY TOO SENSITIVE TO INCREASE; FUEL OIL IS MAINLY CONSUMED BY GOVERNMENT ITSELF, MAKING INCREASES THERE CLEARLY UNATTRACTIVE. THIS LEAVES ONLY GAS OIL (DIESEL). BUT IF TOTAL INCREASE IN COSTS RESULTING FROM JAN 1 PRICE HIKES (ROUGHLY LS 15 MILLION) IS TO BE ABSORBED BY GAS OIL THIS WILL PUT COST TO CONSUMER AT LEVEL HIGHER EVEN THAN BENZINE. THIS BLEAK PICTURE BECOMES EVEN WORSE TO EXTENT SUDAN'S NEED ARE MET THROUGH SAUDI CRUDE WHICH REPORTEDLY PRICED SOME 15 PERCENT HIGHER THAN THAT FROM IRAN. AS REPORTED KHARTOUM 149 AND 259, PRODUCER COUNTRIES HAVE OFFERED SOME ASSISTANCE TO SUDAN ALONG WITH AFRICANS IN MEETING NEW PRICES, BUT WILL IT BE ENOUGH?

6. PLANS APPEAR BE MOVING AHEAD RE SECOND REFINERY TO BE BUILT AT PORT SUDAN WITH SAUDI ASSISTANCE (AND WITH SAUDI CRUDE GUARANTEED). CONSULTANTS FROM FRENCH GOVERNMENT PETROLEUM BOARD REPORTEDLY IN COUNTRY PAST WEEK WORKING ON FEASIBILITY REPORT. NUMBER QUESTIONS CONTINUE BE RAISED REGARDING PRACTICALITY OF PROJECT, HOWEVER. E.G. HOW WILL PORT SUDAN ABSORB SUCH LARGE PLANT (PROJECTED CAPACITY OF REFINERY PUT AT BETWEEN 140,000 TO 200,000 BARRELS PER DAY AS COMPARED TO EXISTING REFINERY'S 26,000)? HOW WILL PORT HANDLE LARGE TANKERS REQUIRED? WHERE WILL RESULTING PRODUCT BE MARKETED? THESE ISSUES AND OTHERS DO NOT NECESSARILY RULE OUT IMPLEMENTATION OF PROJECT, BUT THEY DO GIVE RISE TO CONTINUING SKEPTICISM.

7. COMMENT: SUDAN IS CLEARLY CLASSIC EXAMPLE OF LDC CAUGHT IN MIDDLE CURRENT PETROLEUM CRISIS. EVEN WITH LIMITED OFFICIAL USE

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EXCELLENT RELATIONS WITH SAUDI ARABIA, SUDAN STILL FACING GREAT DIFFICULTIES IN TERMS BOTH ADEQUATE SUPPLY AND COSTS, WITH NO EASY ANSWERS IN SIGHT. THIS HELPS ACCOUNT RECENT SPECIAL BILATERAL GOS EFFORTS WITH SAG, NOT TO MENTION FONMIN KHALID'S EFFORTS AS HEAD SPECIAL OAU OIL COMMITTEE TO ACTIVATE SPECIAL \$200 MILLION OIL FUND. THIS AMOUNT HAS BEEN PROMISED, BUT HOW IT WILL BE DIVIDED AMONG NEEDY AFRICANS SEEMS LIKELY BE SUBJECT CONSIDERABLE CONTENTION AND, THEREFORE, DELAY.
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